

Message Text

CONFIDENTIAL

PAGE 01 SAN JO 02374 220126Z

15

ACTION ARA-20

INFO OCT-01 ISO-00 FEA-02 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 DRC-01 /149 W

----- 116970

R 212340Z JUN 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 7335

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SAN JOSE 2374

E.O. 11652: GDS

TAGS: ENRG, CS

SUBJECT: PETROLEUM --ESSO TO PULL OUT

REF: SAN JOSE 1270

1. SUMMARY: ESSO PLANS TO END ITS COSTA RICAN DISTRIBUTORSHIP WITHIN TWO MONTHS (SENSITIVE INFORMATION). THIS WILL PROBABLY ADD TO THE GROWING UNCERTAINTIES REGARDING FOREIGN INVESTMENT CLIMATE AND POINTS UP THE NEED FOR A CLEAR STATEMENT OF POLICY BY THE ODUBER ADMINISTRATION.

2. ESSO'S COSTA RICAN MANAGER RODOLFO NARVAEZ AND REGIONAL VICE MANAGER MANUEL GUARDIA CALLED ON CHARGE MORNING OF JUNE 21 TO INFORM EMBASSY THAT ESSO HAD DECIDED TO END ITS DISTRIBUTORSHIP IN COSTA RICA AND HAD ALREADY INFORMED MINISTER OF ECONOMY, INDUSTRY AND COMMERCE SANCHEZ TO THIS EFFECT. ESSO IS THE LARGEST OF THE FOUR FOREIGN DISTRIBUTORS (TEXACO, SHELL, AND CHEVRON ARE THE OTHER THREE) AND WILL BE THE SECOND U.S. COMPANY TO PULL OUT (FOLLOWING GULF) IN THE PAST TWO YEARS.

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PAGE 02 SAN JO 02374 220126Z

ESSO HOPES TO HAVE ITS LIQUIDATION PROCESS COMPLETED WITHIN

TWO MONTHS. (GUARDIA SPECIFICALLY REQUESTED THAT WE HOLD OXIS INFORMATION CLOSE FOR THE MOMENT.)

3. GUARJFA MADE IT CLEAR THAT ESSO WAS NOT REPEAT NOT SEVERING ALL INTEREST WITH THIS MARKET. IT WILL MAINTAIN ESSOCHEM DE CENTRO AMERICA S.A. WHICH SELLS SOLVENT HERE AND WILL CONTINUE TO SUPPLY COSTA RICA WITH ASPHALT FROM ITS NICARAGUAN REFINERY. THE LOCAL ASPHALT OPERATION WILL BE PICKED UP BY A NEW COSTA RICAN FIRM MANAGED BY PRESENT ESSO MANAGEMENT-LEVEL COSTA RICANS AND IN FACT WILL EMPLOYEY MANY PRESENT ESSO COSTA RICANS. IN ADDITION ESSO WILL MAINTAIN ITS SMALL AVIATION OPERATION OUT A JUAN SANTAMARIA AIRPORT. WHILE ESSO HAD HOPED TO FIND A SINGLE BUYER FOR ITS OPERATIONS, GUARDIA SEEMED CONFIDENT THAT IN ONE WAY OR THE OTHER MOST ASSETS WOULD BE LIQUIDATED. FOR EXAMPLE, ESSO IS ALREADY IN THE PROCESS OF SELLING ITS STATIONS TO THE MANAGERS WHO PRESENTLY LEASE THEM. ONLY ABOUT \$150,000 IN ASSETS STILL REMAINS TO BE DISPOSED OF. MOREOVER, OF ITS PRESENT PAYROLL OF 46 EMPLOYEES, ESSO HAS PLANS TO TAKE CARE OF ALL BUT 12 BY PLACEMENT ELSEWHERE OR EARLY RETIREMENT.

4. GUARDIA DESCRIBED HIS MEETING WITH SANCHEZ AS VERY CORDIAL. HE SAID SANCHEZ RECOGNIZED THE FACTORS THAT HAD COME INTO ESSO'S DECISION TO PULL OUT AND SEEMED HIGHLY APPRECIATIVE OF THE LENGTHS TO WHICH ESSO IS GOING IN ORDER TO LIQUIDATE ITS HOLDINGS SMOOTHLY AND WITH A MINIMUM OF HARDSHIP FOR PRESENT EMPLOYEES. HE SAID THAT SANCHEZ AGREED THAT THE DISORDERLINESS THAT HAD CHARACTERIZED THE GOCR'S PETROLEUM POLICY IN THE LAST SEVERAL MONTHS HAD CREATED SERIOUS UNCERTAINTIES FOR THE FOREIGN DISTRIBUTORS AND HE EXPRESSED CONCERN ABOUT THE EFFECT OF THE ESSO PULL OUT ON THE INVESTMENT CLIMATE IN GENERAL. SANCHEZ SAID THAT IN AN EFFORT TO RESTORE CONFIDENCE IN THE HYDROCARBON AND MINING AREA THE GOCR HAD DECIDED TO WITHDRAW A PROPOSAL (PRESENTED IN THE LAST DAYS OF THE LAST ASSEMBLY) FOR THE CREATION OF A NEW GOVERNMENT CORPORATION EMBRACING THIS ENTIRE AREA.

5. COMMENT: DESPITE ESSO'S DESIRE TO PULL OUT AS QUIETLY AS POSSIBLE, THE IMPACT ON THE INVESTMENT CLIMATE COULD BE HIGHLY NEGATIVE. ESSO'S REASONS FOR LEAVING ARE BASED ON SOUND BUSINESS CRITERIA AND NOT ON ANY SPECIFIC QUARREL WITH THE ODUBER CONFIDENTIAL

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PAGE 03 SAN JO 02374 220126Z

GOVERNMENT. THE MAIN REASON IS THAT THE DISTRIBUTION BUSINESS IS NOT PARTICULARLY PROFITABLE AND WITH THE RECOPE TRANSFER LAW APPROVED LAST MARCH (REFTEL, THE HANDWRITING IS ON THE WALL RE THE LIMITED LIFE OF THE FOREIGN DISTRIBUTORS IN ANY CASE.

6. CONCERNING THE OVERALL FOREIGN INVESTMENT CLIMATE, IN THE ABSENCE OF A CLEAR POLICY STATEMENT FROM ODUBER (AND WITH MORE

THAN ONE PRESIDENTIAL REMARK ON RECORD THAT CAN BE SUBJECT TO
MISINTERPRETATION) THERE HAS BEEN A DECIDED INCREASE IN UNCERTAINTY
HERE LATELY-- A DEVELOPMENT WHICH WE DO NOT BELIEVE ODUBER DESIRES,

BUT WHICH HE NEVERTHELESS HAS INVITED BY HIS FAILURE TO PROVIDE
DEFINITIONS.
LANE

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